

Long Run Financial Market, and Sources

Mercado de Financiamento de Longo Prazo e suas Fontes

Ministry of Planning

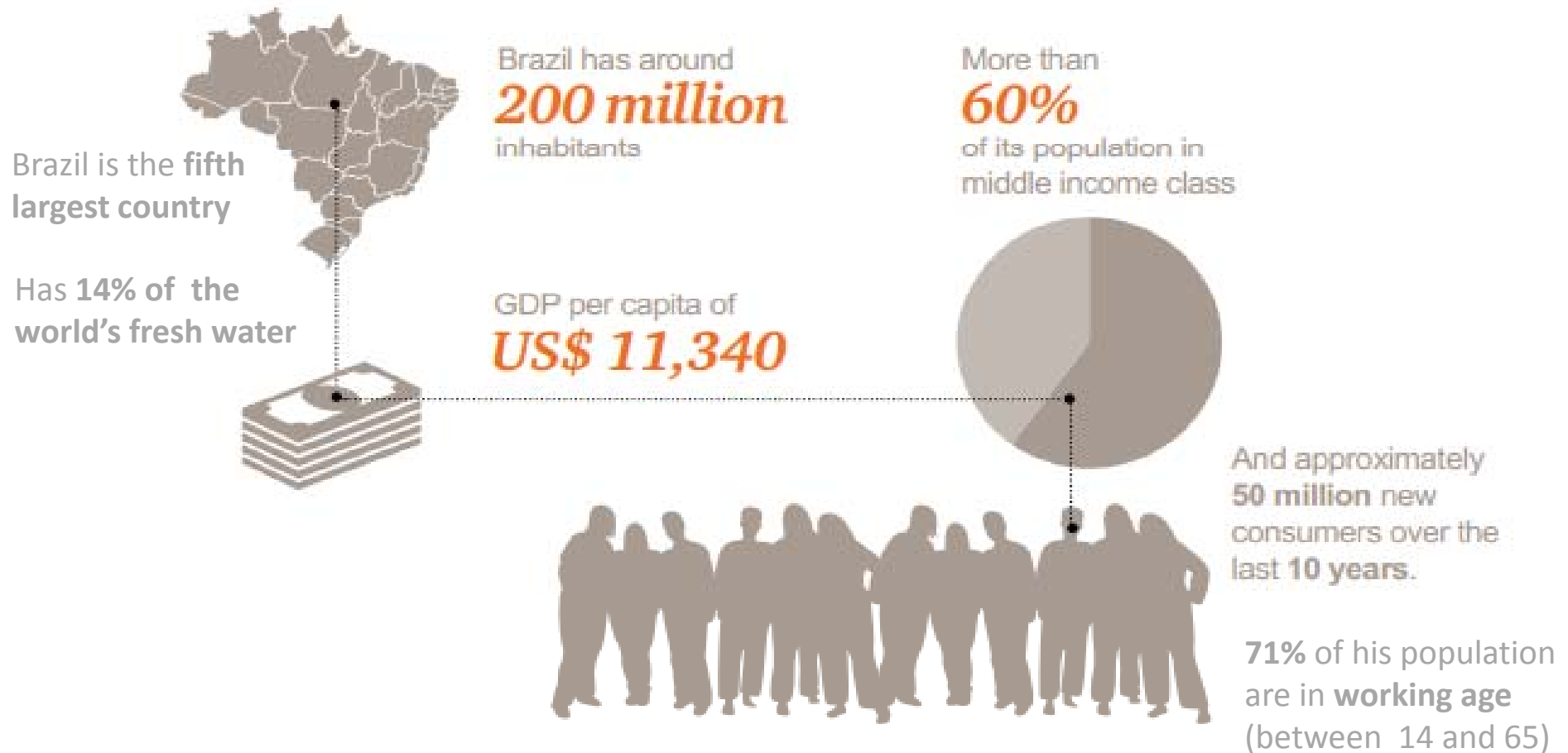
April 2015

BRAZIL IN THE GLOBAL ECONOMY

- World's 7th largest economy
- Strong and increasing consumer market
- Large and diversified productive sector
- Abundant natural resources
- Consolidated democracy
- Sound macroeconomic foundations

DOMESTIC MARKET: ONE OF THE MAIN DRIVERS OF GROWTH

Brazil GDP



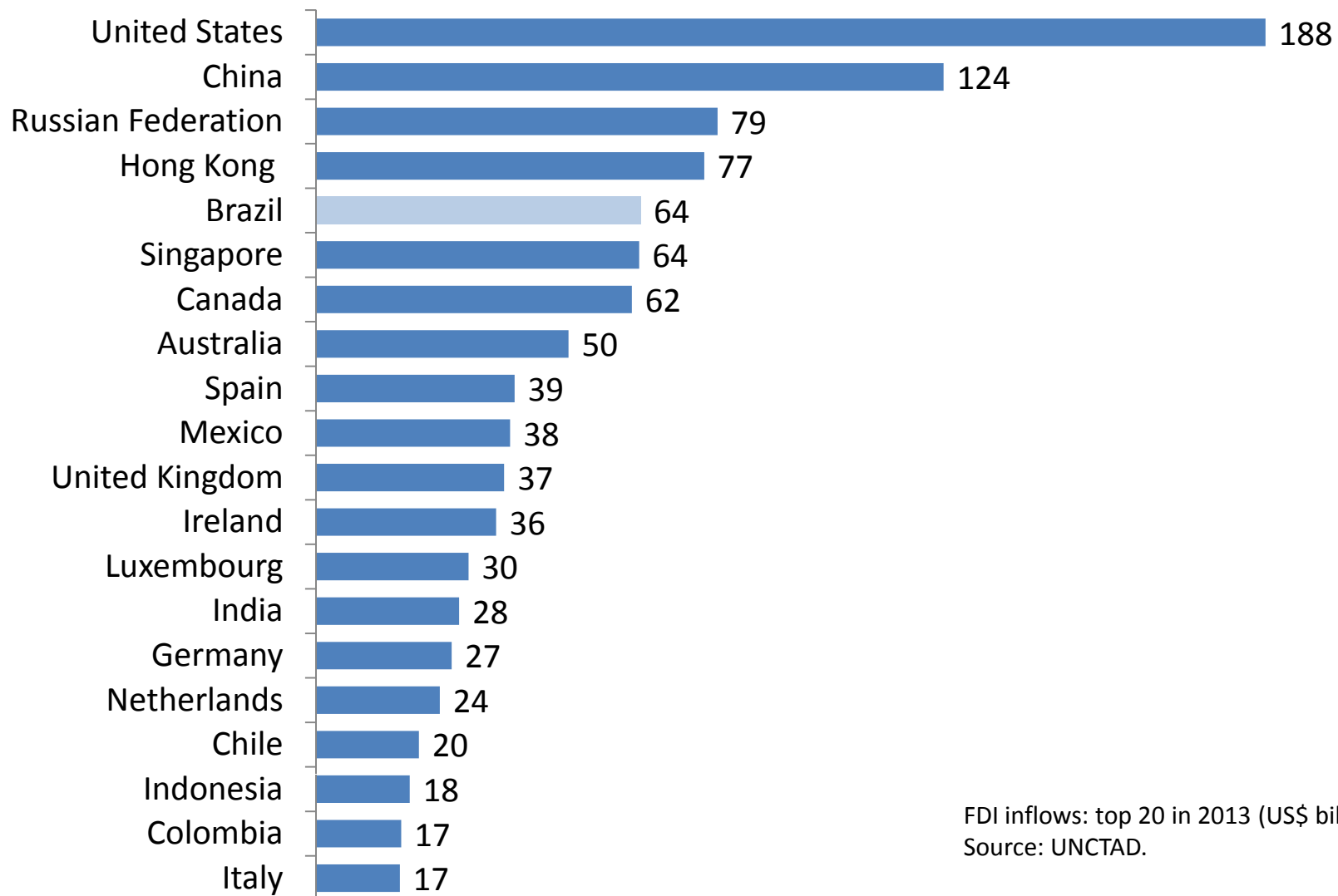
Source: APEX/PricewaterhouseCoopers (PwC) – 2014, IBGE and Porperty UK

SHARE IN THE MAIN MARKETS

- 1st world's producer and exporter of sugar, coffee and orange juice
- 1st world's sugar cane ethanol producer
- 2nd producer and exporter of soybeans
- 3rd main aircraft manufacturer
- 3rd producer of corn, 2nd exporter
- 1st beef exporter
- 5th exporter of cotton fiber
- 5th largest market for medical equipment
- 1st exporter of poultry meat
- 3rd largest market for computers
- 4th in clean and renewable energy
- 5th largest market for cell phones, automobiles and TVs

FOREIGN DIRECT INVESTMENT:

BRAZIL IS AMONG THE TOP 5 NET FDI DESTINATIONS



FDI inflows: top 20 in 2013 (US\$ billion)
Source: UNCTAD.

SOUND MACROECONOMIC POLICY

SOLID FOUNDATIONS AND FINANCIAL STABILITY

The macroeconomic framework of Brazil has been the same for 15 years:

- Inflation target policy
- Floating exchange rate
- Fiscal policy that ensures debt sustainability

Macroeconomic and financial stability:

- Credit market with high potential of expansion
- Financial and social inclusion
- High level of international reserves (US\$ 370 Billion)
- Low external vulnerability (shift from large debtor for net external creditor)

Fiscal Consolidation

Government has adopted several measures to increase the primary surplus

The first measures were adopted in late December, two were:

- Start the process of increasing of the long run interest rate TJLP
- Increase all interest rates under the PSI (Program to Support Investment) and Constitutional Funds

Those measures intend to eliminate any form of subsidies that Treasury would have to pay

Government has sent a bill to the Congress modifying the Budgetary Guide Law (LDO) in its main aspects:

- a new target to the fiscal primary surplus was set: R\$ 66 billion (1,2% of GDP) – previous was 2,5% of GDP
- the assumptions used to forecast revenues were closed to the market expectations
- focusing Gross Debt (not only Net Debt)

Fiscal Consolidation

Government has adopted several measures to increase the primary surplus II

Than Government implemented measures to reduce expenditure and increase revenues.

To reduce expenditure (R\$ 85.5 billion):

- Sent to the congress two Bills (MP 664 e 665) to improve rules of pension system, unemployment insurance, annual salary government benefits for poor people (abono salarial PIS/PASEP), and seasonal salary for poor fisherman during prohibition period (R\$ 19 billion)
- Eliminate the subsidy in electrical bills (R\$ 9.0 billion)
- Pre Budget Law contingency + Decree 8.412: total R\$ 57.5 billion
- Establish a group (GTAG) to analyze the main government programs in order to make them more focused and perhaps downsizing
- Presidential Decree 8.407: elderly committed expenditures (2013 and 2014) under scrutiny

Fiscal Consolidation

Government has adopted several measures to increase the primary surplus (III)

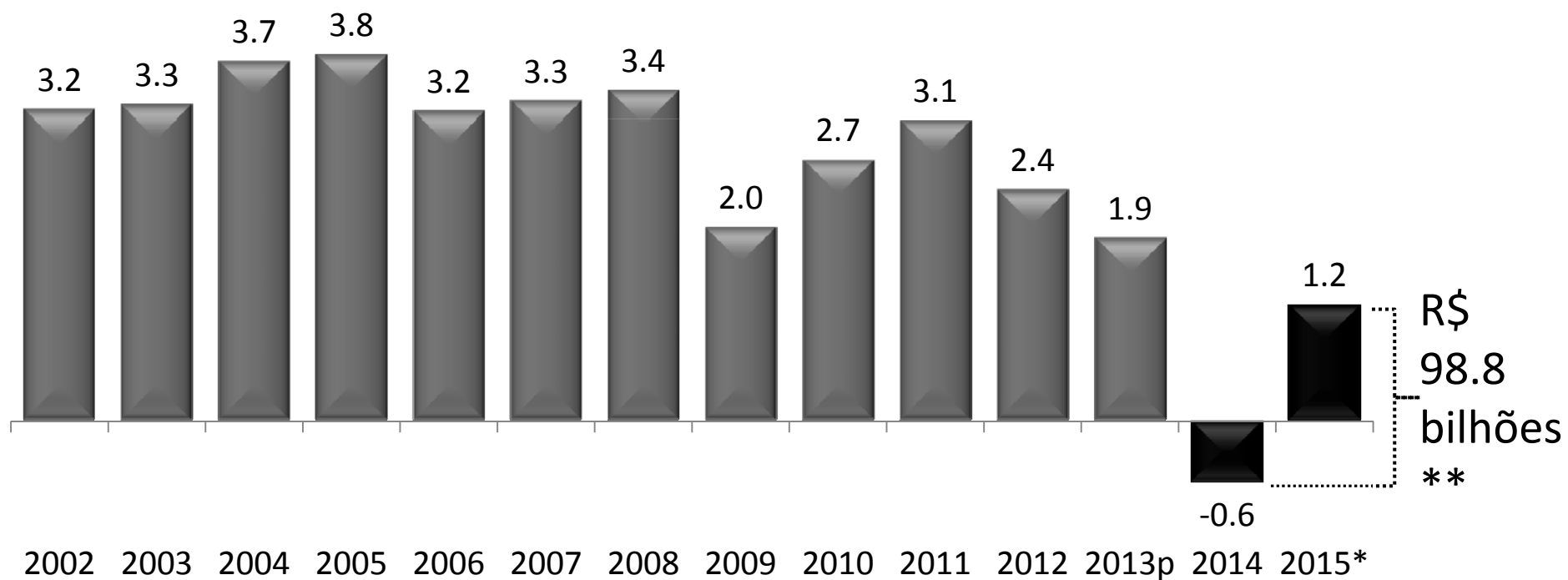
To raise revenues (R\$ 24.3 billion):

- Increased IPI (tax over manufactured goods) over vehicles, lodged products, and cosmetics (R\$ 2.3 billion)
- Increased PIS/Cofins (contributions over enterprise turnover and payroll) over beverages, fuel, and imports (R\$ 2.6 billion)
- Increased CIDE (contribution over fuel to finance improvements in roads: R\$ 9.1 billion)
- Increased IOF (tax over financial operations) in loans to people from 1,5% p.y. to 3,0% p.y. (R\$ 7.6 billion)
- PIS/Cofins over financial operations (Decree 8.426/2015)
- Increased the social security percentage contributions on companies gross revenue (PL 863/2015)

New measures to reduce expenditure are going to be taken after budget approval by the Congress

Fiscal Consolidation

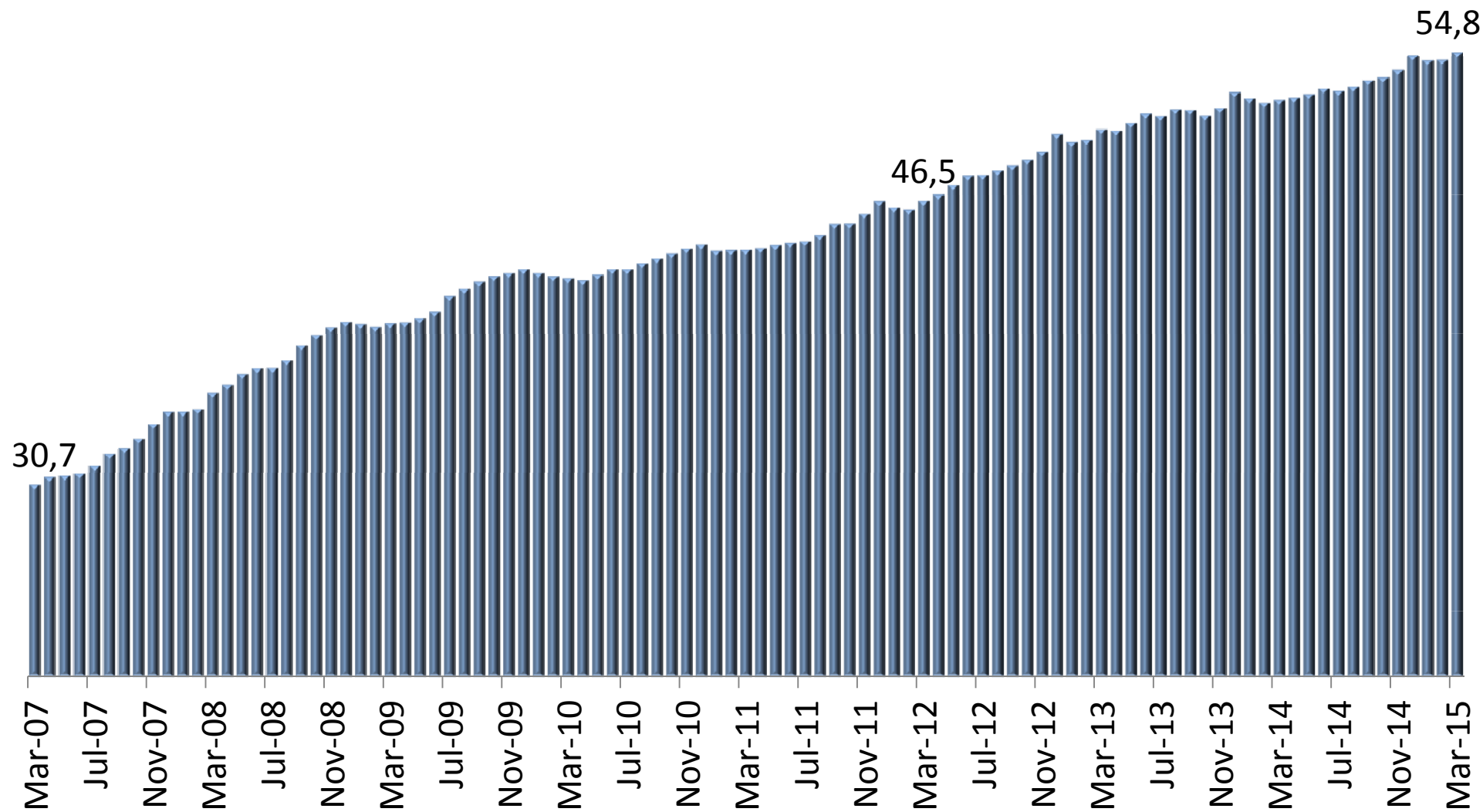
Public Sector Primary Surplus, 2002 – 2015 (% of GDP)



LENDING MARKET GROWTH

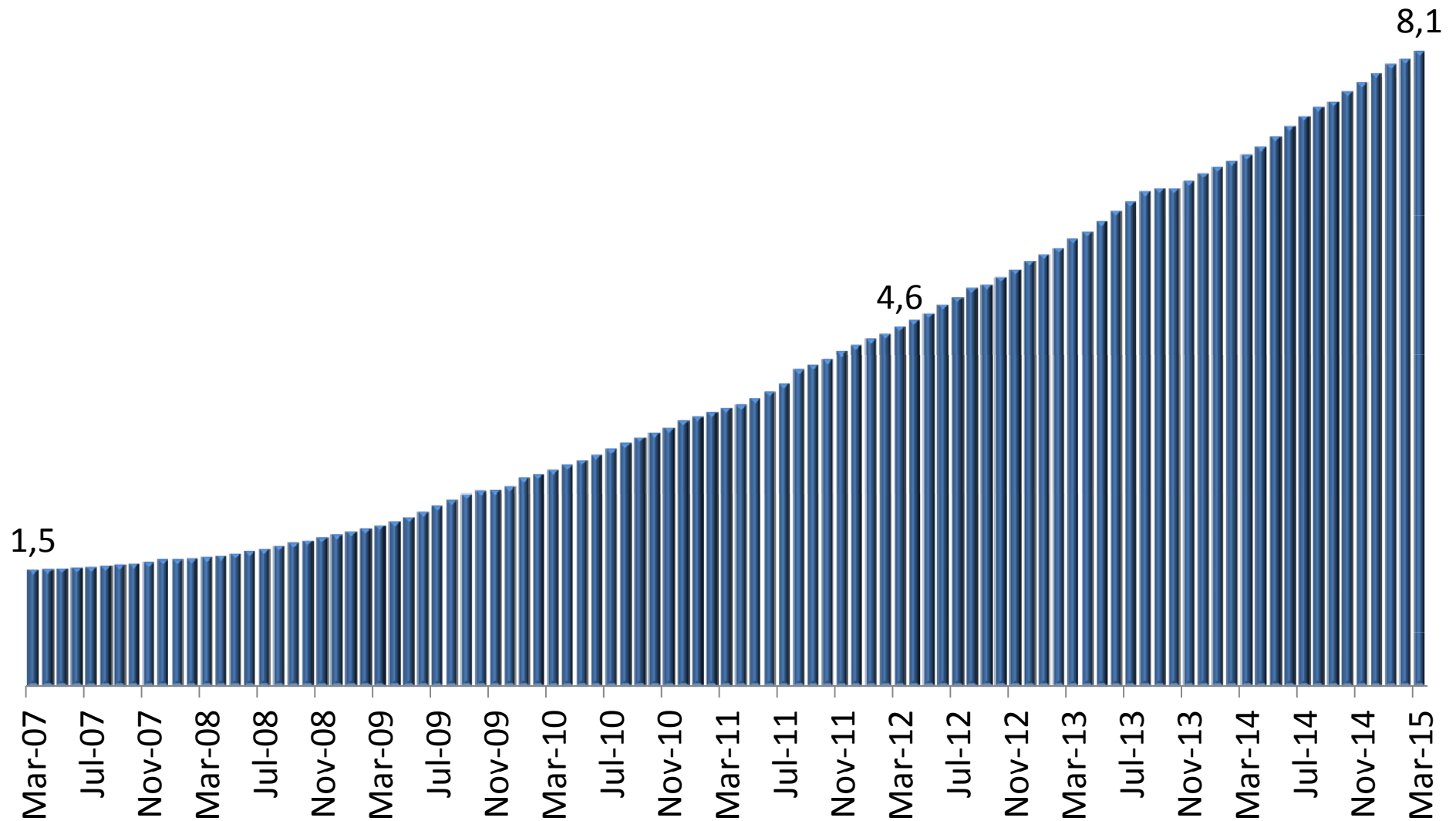
- IPO
- Credit/GDP
- Debentures
- Insurance
- Mortgage
- Long-term credit

CREDIT OPERATIONS (% GDP)



Source: Central Bank of Brazil.

Mortgage Balance (% of GDP)



Source: Central Bank of Brazil.

CAPITAL AND FINANCIAL MARKET

MAIN SOURCES OF PRIMARY RESOURCES (R\$ MILLION)

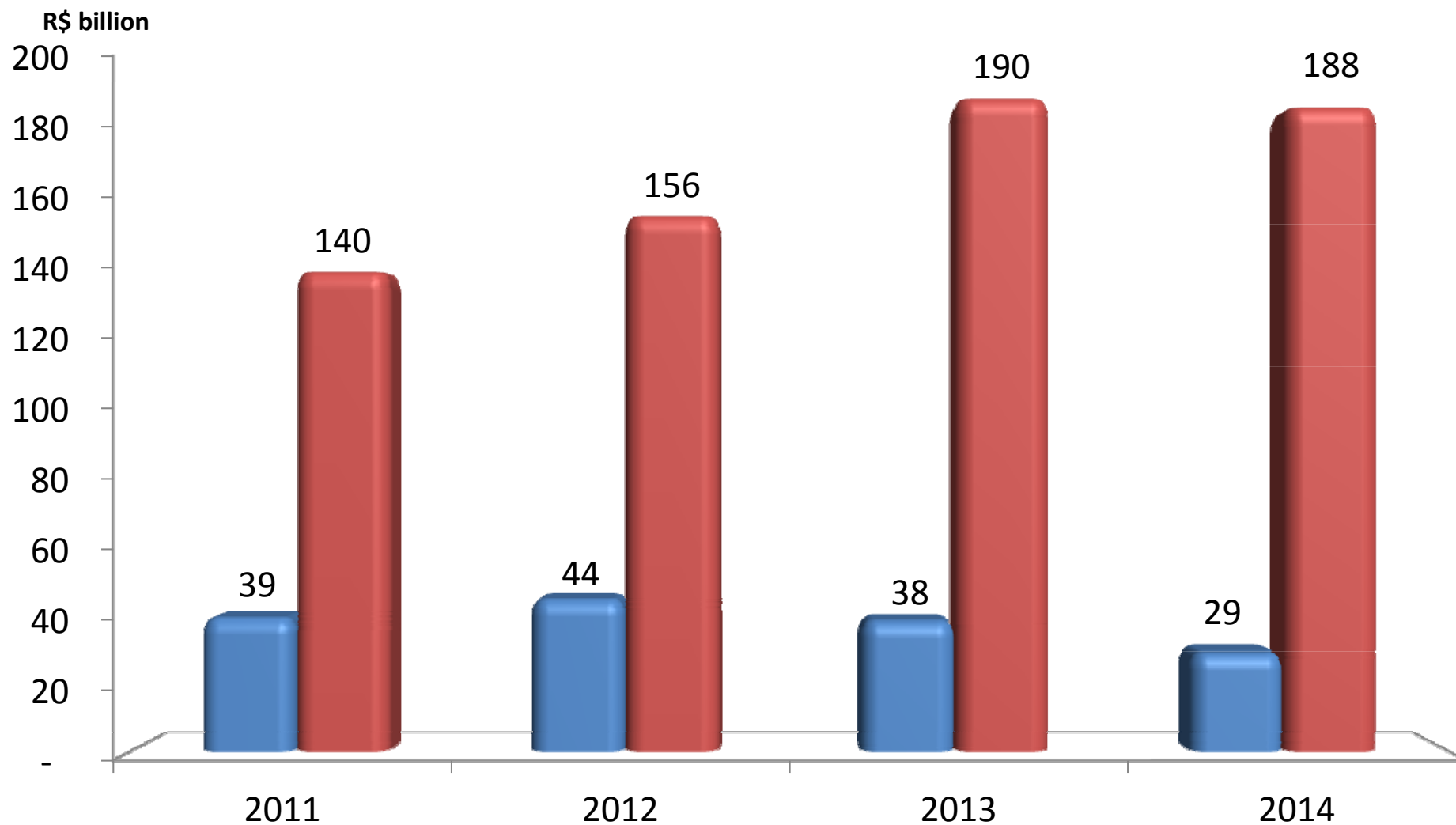
	2011	2012	2013	2014
Equities (IPO)	13,536	7,365	6,223	15,099
Private Equity Investment Fund (FIP)	3,321	3,325	4,178	1,125
Private Bonds* (Debêntures*)	3,180	15,047	10,945	3,674
Mortgage Backed Securities (Certificado de Recebíveis Imobiliários -CRI)	3,965	3,353	2,459	2,274
Real Estate Fund (Fundo de Investimento Imobiliário - FII)	7,665	11,070	10,550	4,727
Collateralized Debt Obligation Investment Fund (Fundo de Investimento em Direitos Creditórios - FIDC)	7,128	4,079	3,541	1,896

Source: CVM.

* Disregards funding by leasing corporations

CAPITAL MARKET AND BNDES

PRIMARY RESOURCES



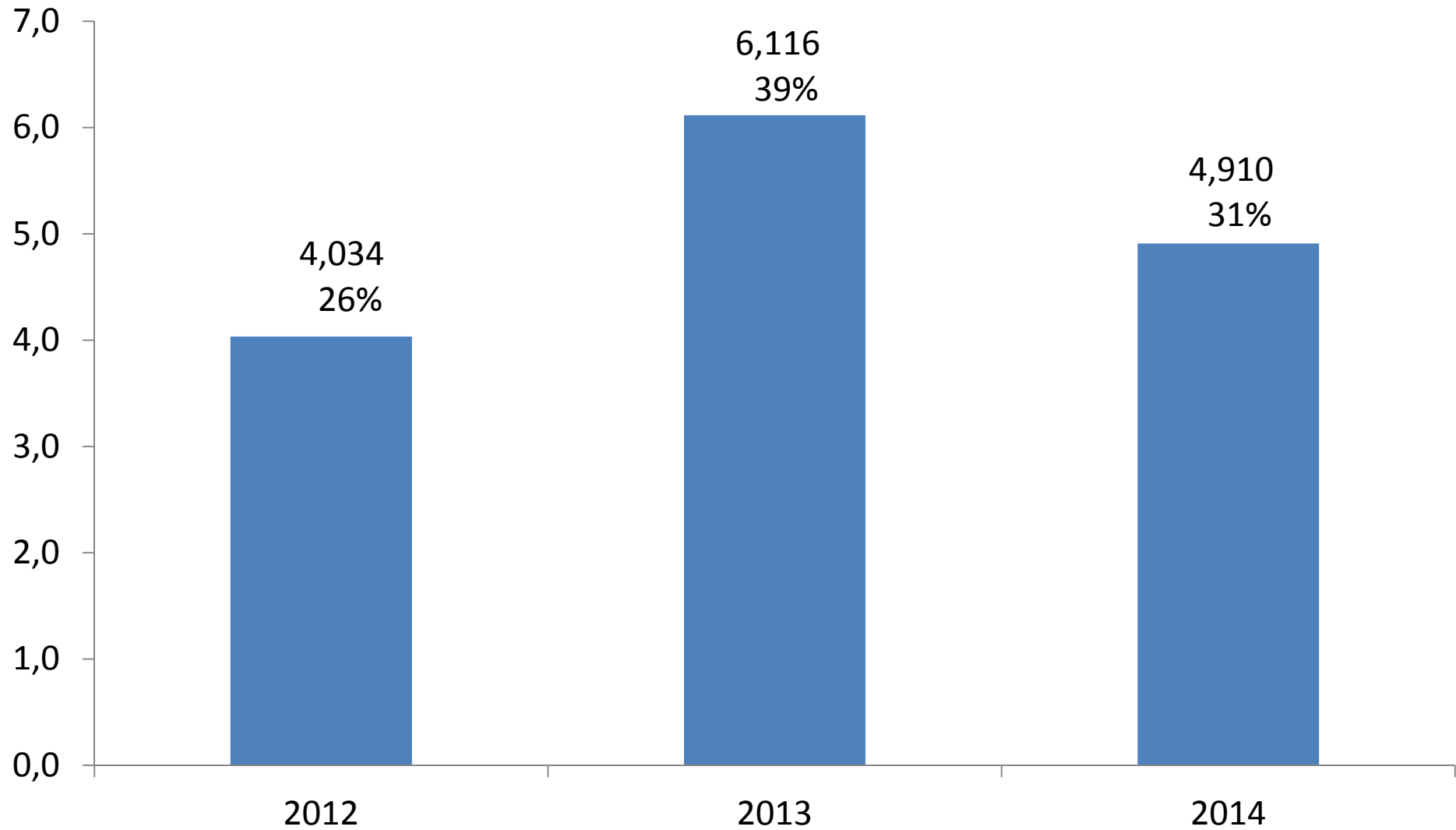
Source: CVM and BNDES.

■ Capital Market

■ BNDES Disbursement

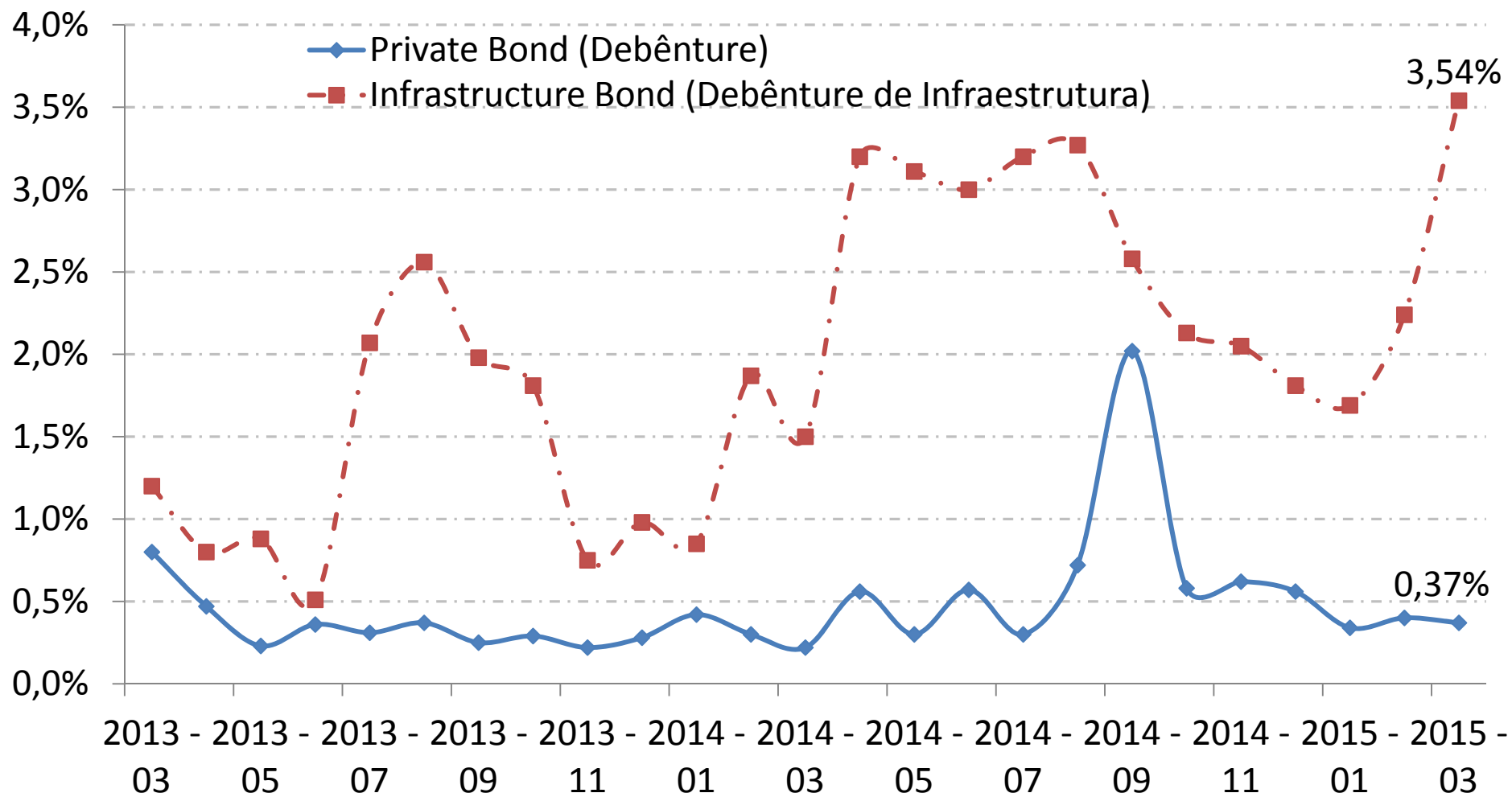
PRIVATE BONDS ISSUANCE FOR INFRASTRUCTURE

TOTAL OF R\$ 15 BILLION ACCUMULATED SINCE 2012*



LIQUIDITY AT THE SECONDARY MARKET

VOLUME TRADE VERSUS STOCK



INFRASTRUCTURE INVESTMENT

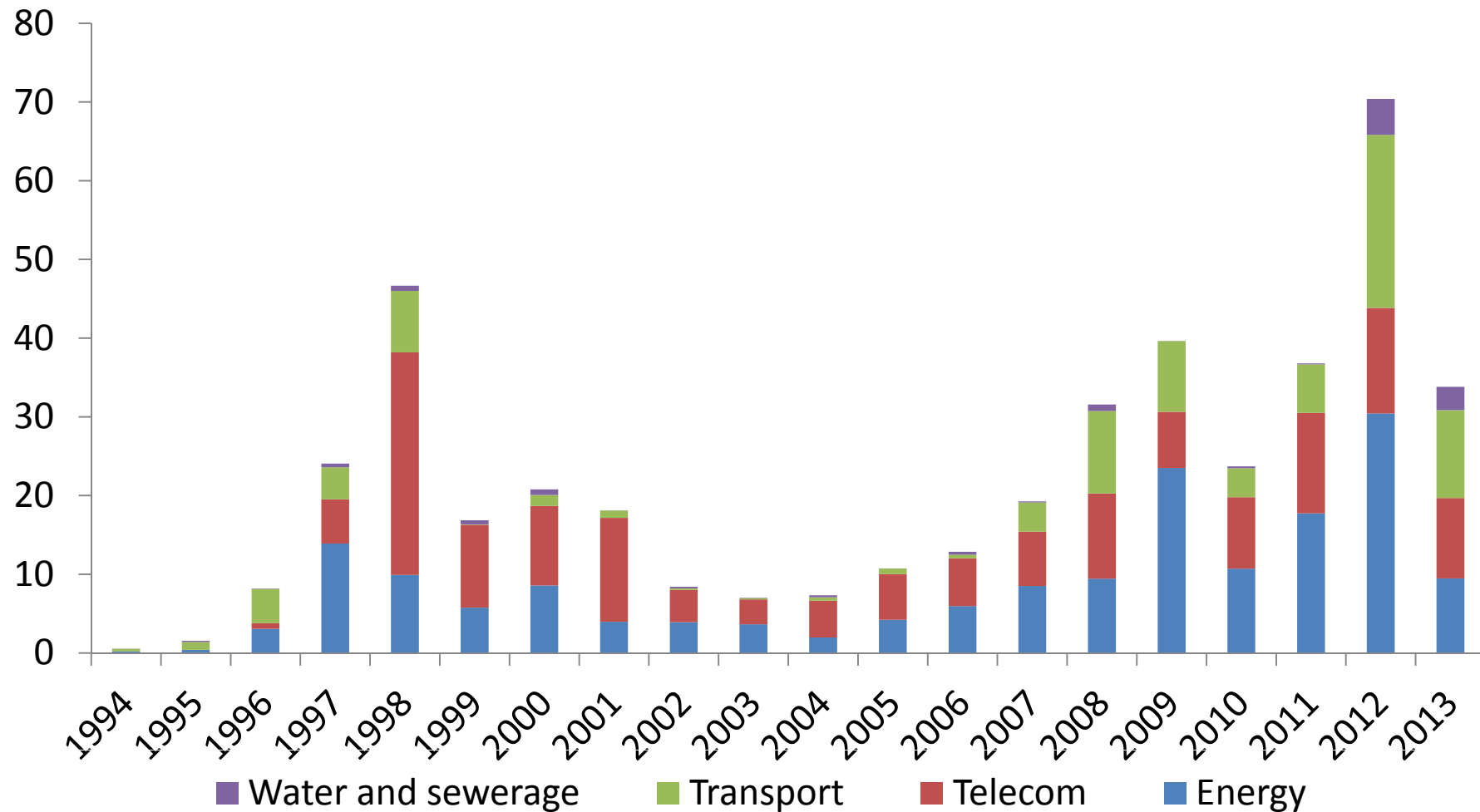
PROJECTS APPROVED (R\$ MILLIONS) POTENTIAL ISSUANCE OF PRIVATE BONDS

Hydroelectric Power Plant	66.832
Oil	30.000
Roads	20.967
Wind Power	14.105
Airport	8.878
Railway	7.816
Dutovia	7.000
Thermal Electric Power Plant	5.235
Transmission Lines	4.746
Ports	2.750
Large Broad Band Data Transmission	2.405
Piped Gas	2.034
Total	172.767

Source: CVM - CETIP.

PRIVATE INVESTMENT IN INFRASTRUCTURE

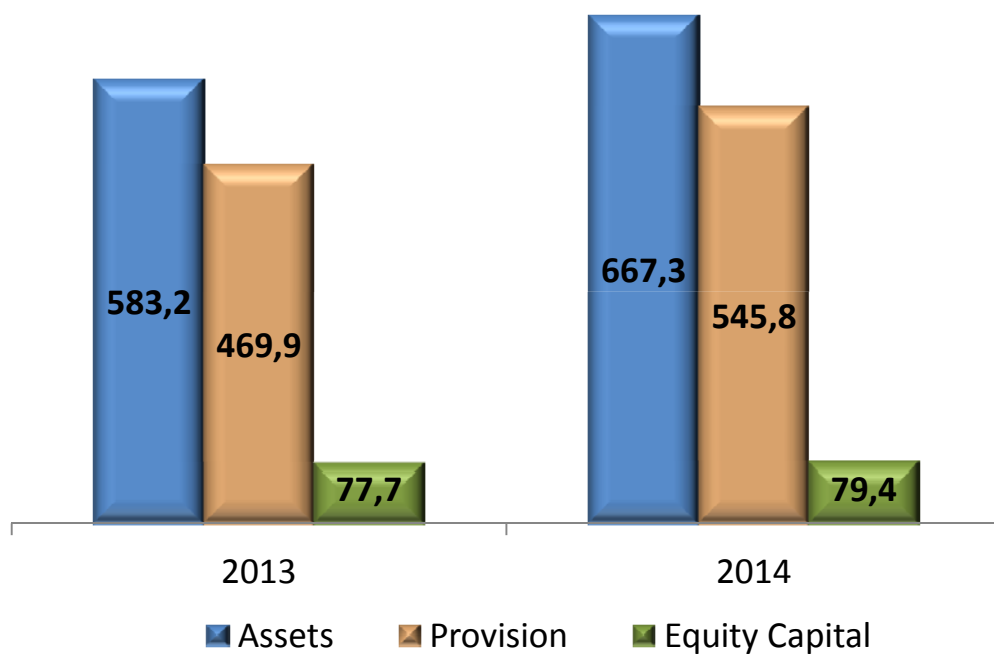
(US\$ BILLIONS, BY SECTOR)



DEVELOPED INSURANCE MARKET

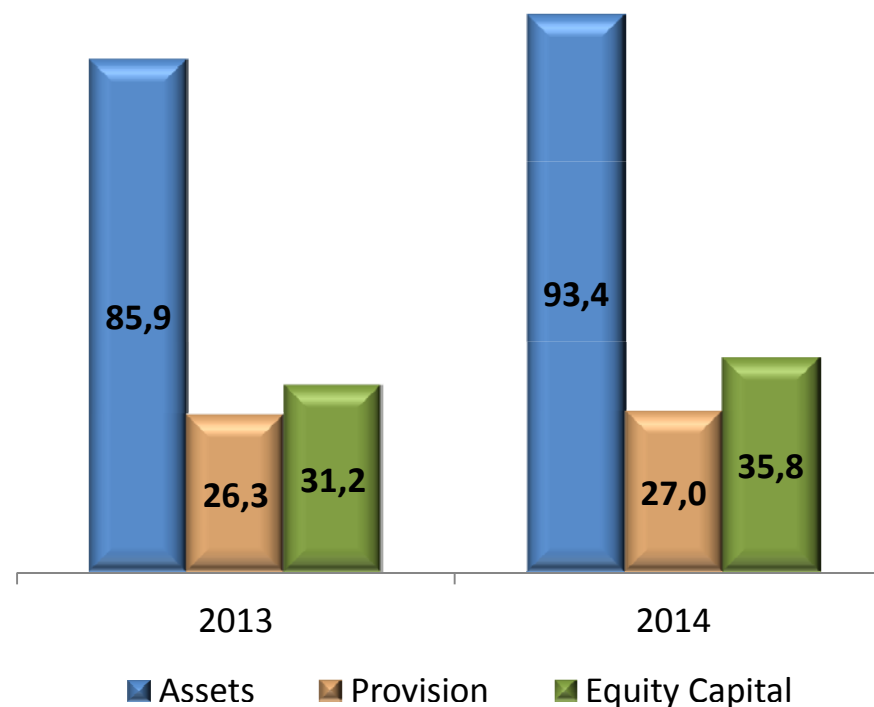
Period of analysis: until December 2014

(R\$ Billion; Susep data)



Period of analysis: until 3rd quarter of 2014

(R\$ Billion; ANS data)

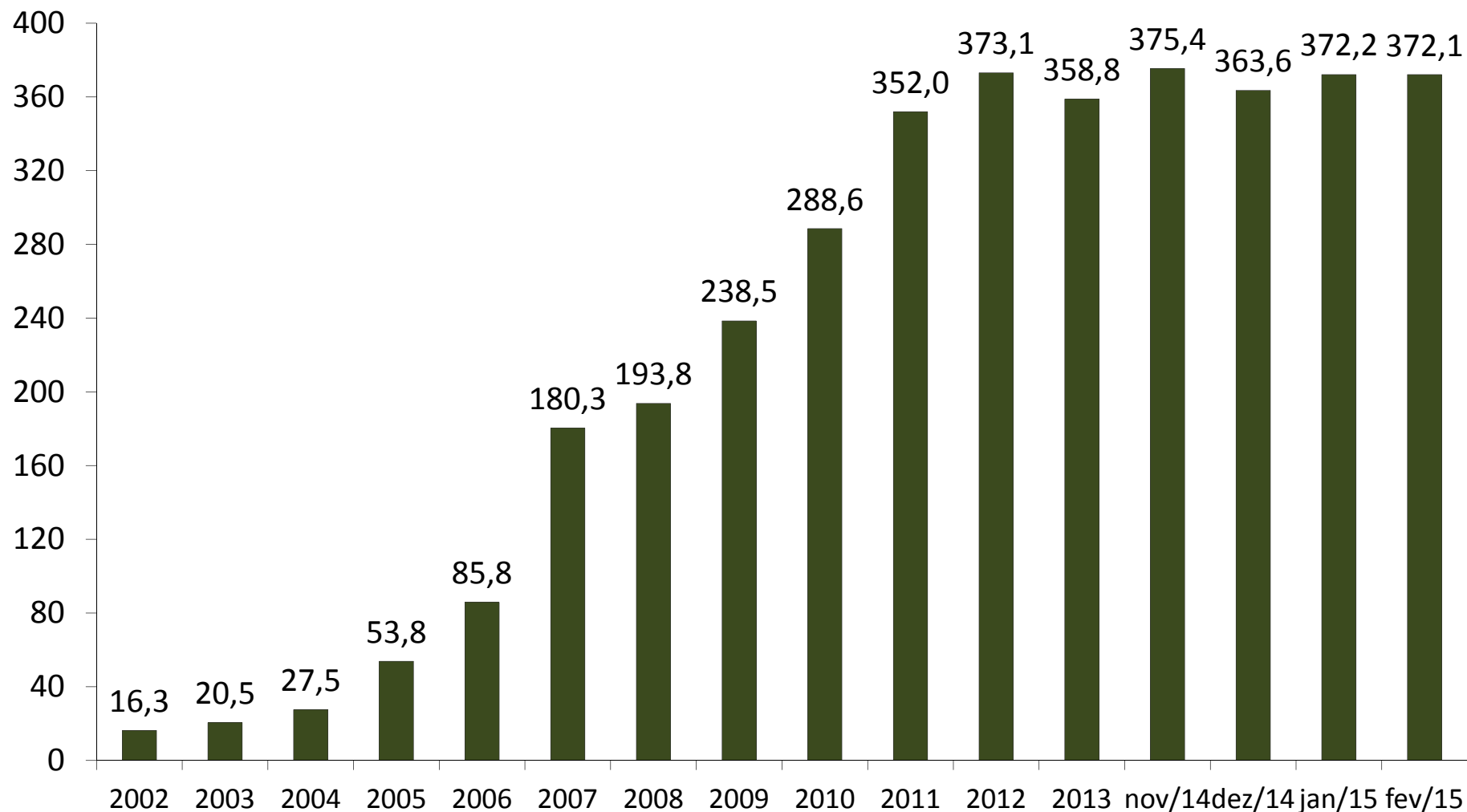


Assets, provision and equity capital y-o-y comparison

Source: DIOPS from ANS;
SES from Susep

INTERNATIONAL RESERVES (IN US\$ BILLION)

CURRENT LEVEL ENSURES SUSTAINABILITY OF EXTERNAL SECTOR



Source: Central Bank of Brazil and Ministry of Finance.

1. Excludes loans from IMF until December of 2005, when Brazil paid its debt.

INFRASTRUCTURE OPPORTUNITIES

ROADS

New concessions:

- 4 Procedures for Request for Proposal/ Expression of Interest ([PMIs](#)) launched and expected to be auctioned until the end of this year
 - *BR-476/153/282/480 (PR/SC) – 492.1 km – R\$ 3.45 bi*
 - *BR-364 (GO/MG) – 439.2 km – R\$ 3.1 bi*
 - *BR-163/230 (MT/PA) – 943 km – R\$ 6.6 bi*
 - *BR-364/060 (MT/GO) – 703.7 km – R\$ 4.1 bi*
- New call for Request for Proposal/Expressions of Interest ([PMIs](#)) soon

INFRASTRUCTURE OPPORTUNITIES

ROADS

Investments in existing concessions:

- 4th lane Porto Alegre/Canoas (RS)
- Duplication Rio/Petrópolis (RJ)
- New lane on the Serra das Araras (SP)

Public investment (7,002 km of works funded with the Federal Budget resources: 2,612 km of duplication / adjustment and 4,390 km of construction and paving)

INFRASTRUCTURE OPPORTUNITIES

RAILWAYS

Projects under construction phase:

- Norte-Sul (FNS)
- FIOF
- Transnordestina

Projects under analysis to RFP (PMI) to be tendered in 2015

- Lucas do Rio Verde/Campinorte (FICO)
- Sinop-Miritituba

Investments in existing concessions: Transocean railway project (BRA/PER/CHI)

INFRASTRUCTURE OPPORTUNITIES

AIRPORTS AND PORTS

New Airport concessions

Ports:

- Call for new leases being analyzed by the Federal Audit Court (TCU)
- Expansion of investments in Private Use Terminals (TUPs)
 - 39 terminals approved
 - R\$ 10.9 billion in investments
- Renewal of existing leases
- PMI for the concession of the access channel dredging

INFRASTRUCTURE CONCESSIONS GRANTED

Roads:

- 5,350 Km granted on [7 road](#) sections (R\$ 34.8 billion in investments, and 50% in tariff reduction)
- Rio-Niterói bridge (18/03/2015; 36% in tariff reduction)

Airports:

- Guarulhos – São Paulo/SP
- Juscelino Kubitscheck – Brasília/DF
- Viracopos – Campinas/SP
- Galeão – Rio de Janeiro/RJ
- Confins – Belo Horizonte/MG
- São Gonçalo da Amarante/RN

Bank and Capital Markets

Challenges Ahead

- Eliminating mismatches between loans and deposits
- Increasing institutional, and legal stability
- Reducing costs
- Improving:
 - human capital expertise
 - secondary market liquidity
 - instruments to provide risk mitigation

Thank You